

Message Text

UNCLASSIFIED

PAGE 01 TAIPEI 04906 070247Z

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ACTION EB-11

INFO OCT-01 EA-11 ISO-00 AGR-20 CIAE-00 COME-00 INR-11

LAB-06 NSAE-00 RSC-01 SP-03 STR-08 TRSE-00 SWF-02

CIEP-03 FRB-03 OMB-01 SS-20 NSC-07 L-03 PA-04 PRS-01

USIA-15 DRC-01 /132 W

----- 117883

R 060855Z AUG 74

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 2570

INFO AMEMBASSY BANGKOK

AMEMBASSY MANILA

AMEMBASSY SEOUL

AMEMBASSY TOKYO

AMCONSUL HONG KONG

AMCONSUL OSAKA

UNCLAS TAIPEI 4906

E.O. 11652: N/A

TAGS: ETRD, TW

SUBJECT: VISIT OF U.S. COTTON TRADE MISSION

REF: A) STATE 146256, B) 146257

1. SUMMARY: DURING TWO WORKING DAYS IN TAIPEI, MISSION MET WITH AMBASSADOR, COTTON TRADERS ASSOCIATION (CTA) COTTON SPINNERS ASSOCIATION (CSA) AND 6. T. WONG, DIRECTOR GENERAL OF BOARD OF FOREIGN TRADE (BOFT). NO QUICK OR EASY SOLUTION TO PROBLEM OF UNOPENED LETTERS OF CREDIT WAS FOUND. MISSION LEFT TAIWAN WITH IMPRESSION THAT BOFT AND CSA MIGHT USE THEIR INFLUENCE TO PERSUADE LARGE AND FINANCIALLY STRONG COTTON MILLS TO HONOR CONTRACTS BUT ONLY RECOURSE AGAINST UNWILLINGNESS OF NEW OR FINANCIALLY WEAK MILLS TO OPEN 1/C'S IS LEGAL ACTION. END SUMMARY.

UNCLASSIFIED

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PAGE 02 TAIPEI 04906 070247Z

2. BEFORE MEETINGS WITH CTA AND CSA ON JULY 29, MISSION

HAD OPPORTUNITY TO THOROUGHLY BRIEF AMBASSADOR ON PURPOSES OF VISIT. AMBASSADOR AGREED TO CALL TO ATTENTION OF HIGH GROC OFFICIALS PROBLEMS WHICH COULD ARISE IN TRADING RELATIONSHIPS BETWEEN US AND ROC IF CONTRACTS NOT HONORED. AT MISSION'S MEETING WITH CTA, LATTER REPORTED THAT TEN TEXTILE MILLS HAVE FAILED TO OPEN 1/C'S FOR ESTIMATED 10,000 BALES OF CONTRACTED COTTON. CTA HAS BROUGHT MATTER TO ATTENTION OF BOFT, WHICH STATES THAT IT HAS NO AUTHORITY TO COMPEL TEXTILE MILLS TO HONOR CONTRACTS. CTA SUGGESTED THREE MEASURES TO SOLVE PROBLEM. FIRST, ASK CSA, WHICH REPRESENTS ALMOST ALL COTTON TEXTILE MILLS, TO IMPRESS ON MEMBERS THE IMPORTANCE OF SANCTITY OF CONTRACTS AND URGE CTA TO USE ITS GOOD OFFICES TO ENCOURAGE OPENING OF 1/C'S. SECOND, ASK BOFT TO NOT ISSUE IMPORT LICENSES FOR NEW IMPORTS OF COTTON TO ANY MILL WHICH HAS NOT HONORED EXISTING CONTRACTS. THIRD, URGE US EXPORTERS TO REFUSE TO SELL ADDITIONAL COTTON TO ANY MILL WHICH REFUSES TO OPEN A PAST DUE 1/C.

3. CSA STATED TO MISSION THAT MANY COTTON TEXTILE MILLS IN TAIWAN ARE IN SERIOUS DIFFICULTIES. CURRENT PRICE OF YARN THEY SELL IS APPROXIMATELY HALF OF WHAT IT WAS A YEAR AGO AND COST OF RAW COTTON HAS ALMOST DOUBLED DURING SAME PERIOD. INDUSTRY GREATLY OVER-EXPANDED DURINGSGHRE PAST YEAR. ALMOST 40 NEW MILLS HAVE BEEN COMPLETED OR ARE UNDER CONSTRUCTION AND MANY ESTABLISHED MILLS HAVE ADDED SUBSTANTIAL NUMBERS OF NEW SPINDLES. PRESENT NUMBER OF SPINDLES IN TAIWAN IS 2.2 MILLION, WITH 600,000 BEING ADDED DURING PAST YEAR. CSA AGREED TO INFORM MEMBER MILLS OF SERIOUSNESS OF PROBLEM DESCRIBED BY HHE MISSION AND INDICATED IT WOULD MAKE EVERY EFFORT TO ENSURE THAT MEMBERS HONORED CONTRACTUAL COMMITMENTS. HOWEVER, IT WAS POINTED OUT TO THE MISSION THAT MOST OF THE TEN MILLS WHICH UP TO NOW HAVE FAILED TO OPEN 1/C'S MAY NOT BE IN A FINANCIAL POSITION TO DO SO.

4. AT MEETING WITH U. T. WONG OF BOFT ON JULY 30, MISS N REQUESTED THAT HE TO DENY AN IMPORT LICENSE TO UNCLASSIFIED

UNCLASSIFIED

PAGE 03 TAIPEI 04906 070247Z

ANY MILL WHICH HAS NOT OPENED 1/C ON CONTRACTED COTTON. WONG STATED THAT BOFT DOES NOT HAVE THIS AUTHORITY AND EVEN IF IT DID HAVE THE AUTHORITY, IT IS TOO LATE SINCE IMPORT PERMITS ALREADY HAVE BEEN ISSUED FOR ENTIRE YEAR'S COTTON REQUIREMENTS. WONG DID AGREE TO INFORM MINISTER OF ECONOMIC AFFAIRS Y. S. SUN OF SERIOUSNESS OF 1/C PROBLEM AND HE PROMISED TO USE HIS INFLUENCE TO CONVINCE CSA MEMBERS WHO HAVE

NOT OPENED 1/C'S TO DO SO. HOWEVER, WONG ALSO STATED THAT IT IS LIKELY THAT MOST OF THE TEN MILLS IN DEFAULT ARE NOT IN A FINANCIAL POSITION TO TAKE COTTON NOW OR IN THE FORESEEABLE FUTURE. WONG RECOMMENDED TO THE MISSION THAT IT TRY TO OBTAIN RELIEF THROUGH THE CSA. IF THIS FAILS, THE ONLY RESORT IS THE COURTS.

5. WONG PROMISED TO CALL PRESIDENT OF CSA, WHO HAD NOT BEEN AT MEETING WITH MISSION ON JULY 29, AND OBTAIN A READING AS TO WHAT CSA MIGHT BE ABLE TO DO, BEFORE MISSION LEFT TAIPEI EARLY ON THE MORNING OF JULY 31. WONG WAS UNABLE TO REACH THE PRESIDENT AND MISSION LEFT WITHOUT FURTHER CONTACT WITH CSA OR BOFT. BEFORE IT LEFT, HOWEVER, MISSION MEMBERS AGREED ON A PLAN FOR FUTURE ACTION IN LIGHT OF THE LACK OF SUCCESS IT HAD DURING ITS TWO DAYS IN TAIPEI. FIRST, MEMBERS OF THE AMERICAN COTTON SHIPPERS ASSOCIATION (ACSA), THE EMBASSY, BOFT AND CSA WILL BE PROVIDED WITH A LIST OF COTTON TEXTILE MILLS IN TAIWAN WHICH HAVE FAILED TO HONOR CONTRACTS. SECOND, MEMBERS OF ACSA WILL BE ADVISED TO SCREEN CAREFULLY ALL FUTURE SALES TO TAIWAN MILLS. THIRD, ACSA WILL BE REQUESTED TO INVESTIGATE THE FEASIBILITY AND COST OF OBTAINING RELIABLE CREDIT INFORMATION ON TAIWAN MILLS. FOURTH, ACSA MEMBERS WILL BE PROVIDED WITH A LIST OF LAWYERS IN TAIWAN WHO ARE EXPERIENCED IN HANDLING CONTRACT DISPUTES. FIFTH, THE EMBASSY WILL BE REQUESTED TO CONTINUE URGING THE BOFT AND CSA TO IMPRESS UPON MILLS WHICH HAVE NOT OPENED 1/C'S TO DO SO PROMPTLY.

6. COMMENT: IN A CONVERSATION WITH THE ECON COUNS SUBSEQUENT TO THE MISSION'S DEPARTURE, Y. T. WONG
UNCLASSIFIED

UNCLASSIFIED

PAGE 04 TAIPEI 04906 070247Z

COMMENTED THAT AT LEAST TWO OF THE TEN MILLS INVOLVED ARE IN A FINANCIAL POSITION TO OPEN 1/C'S AND HE IS CONFIDENT THEY WILL DO SO SOON. THE OTHERS HE IS NOT SO SURE ABOUT. SEVERAL ARE NEW MILLS WHICH HAVEN'T EVEN STARTED PRODUCTION YET AND THUS CAN'T USE THE COTTON AND SEVERAL ARE IN SUCH DIRE FINANCIAL CONDITION THAT THEY MAY BE FORCED INTO BANKRUPTCY UNLESS ORDERS BEGIN TO INCREASE VERY SOON.
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